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Senate

Statement of Senator Dianne Feinstein

“Introduction of Amendment to S. 256, the Bankruptcy Reform Bill, to Require Credit Card Companies to Disclose Costs of Making Only Minimum Payments”

Mrs. FEINSTEIN. Mr. President, this amendment is offered on behalf of the Senator from Arizona, Mr. Kyl, and myself. Because Senator Kyl has an urgent appointment, I will make a very brief statement and then turn it over to Senator Kyl, and then I will wrap up. I ask unanimous consent to be able to do that.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mrs. FEINSTEIN. Mr. President, today 144 million Americans have credit cards and they are charging more debt than they have in the past. Let me give one example of that. Credit card debt between 2001 and 2002 increased 8 ½ percent. Between 1997 and 2002, it increased 36 percent, and between 1992 and 2002, it increased by 173 percent. Forty to 50 percent of all credit card holders make only the minimum payment.

I am a supporter of the bankruptcy bill, but here is the rub: Individuals get six, seven, or eight different credit cards, pay only the minimum payment required, and then end up with debt rolling over their shoulders like a tsunami. That happens in case after case. So that is the predicate for this amendment. It is like Senator Akaka's amendment, but it is less onerous than the amendment of Senator Akaka. I will explain that, but first I defer to my cosponsor, the Senator from Arizona.

The PRESIDING OFFICER. Without objection, it is so ordered. The Senator from Arizona is recognized.

Mr. KYL. Mr. President, I thank the Senator from California for deferring because I do have only a moment. I join her in speaking in favor of this amendment and laying it before our colleagues. The point of the bankruptcy reforms is to try to help people get into a position to pay their obligations freely contracted and to try to make sure that creditors get as much as they are owed as possible. Part of that is to try to help people not get into situations where they are not going to be able to pay their debts, and that is the basic philosophy of this amendment.

One can go too far and put conditions on companies such as credit card companies, for example, that are so onerous that they cannot possibly comply. People want to have ease of dealing with credit cards, but one can also get into a lot of trouble with credit card debt, as everybody acknowledges. It can get away from a person if they are not careful. What this amendment does is to borrow from a California statute that was declared invalid in California by a Federal court only because it was preempted by the Federal law, the Truth In Lending Law, which we are hereby amending, so that that same provision would apply again in California and to the other States as well.

It requires the companies that offer these cards, when they find someone is paying the minimum amount on a monthly basis, to let them know what will happen or what can happen if they continue to do that, which is essentially that a person is going to end up paying a lot of interest and

they are going to end up with a huge debt at a certain point in time that they are not aware of. They need to be aware of it. So we are going to tell the person either hypothetically, if it is not possible to do it on an individual basis, or individually, what the consequences of their paying this minimum amount are, a way to try to help people understand what they are doing and thereby better arrange their affairs so they can pay their debts, and therefore the creditors get paid. That is a win/win for everybody.

We have tried to strike the right balance. I think the legislation that was offered by Senator Akaka was simply seen as unworkable and that is why I opposed it. The concept is not bad; it is that the execution of it would not be possible. We think this strikes a better balance. If our colleagues can demonstrate that somehow or other this is impossible to do, we invite them to demonstrate that. We think it strikes the right balance and yet achieves both of the objectives of helping people keep their affairs straight and making sure all of the creditors get paid.

We will have more to say, but I do only have a moment. I want to thank Senator Feinstein for her leadership on this issue, for bringing it to my attention and for helping to pursue it today.

The PRESIDING OFFICER. The Senator from California.

Mrs. FEINSTEIN. I thank the Senator from Arizona for his cosponsorship on this amendment and also for his friendship as well.

We have talked about credit card debt increasing. Let me talk a little bit about what it is today. It has increased from about \$251 billion in 1990 to over \$790 billion in the year 2000. That is an increase of 300 percent.

There has been a dramatic rise in personal bankruptcies during these same years. In 1990 there were 718,107 personal bankruptcies. In 2000 that number had almost doubled to 1,217,972 personal bankruptcy filings. In 2004 it went up again, to 1,563,145 personal bankruptcy filings. Many of these personal bankruptcies are from people who get a credit card. It looks alluring. They do not recognize what a 17-, 18-, 19-percent interest rate can do. They pay just the minimum payment. They pay it for 1 year, 2 years -- they have something else, they get another card, they get another card, they get another card, they do the same thing.

They get 2 or 3 years down the pike and they find that the interest on the debt is such that they can never repay these cards, and they do not know what to do about it.

We say that the credit card companies have some responsibility. During the first 6 months of the minimum payment of the balance, the credit card companies, under this amendment, would just put forward what they negotiated to put forward in California. There are a couple of options, and it is just really incremental debt sizes. If you have \$1,000 worth of debt, and you make the minimum payment, this is what happens. If you have \$2,500 worth of debt or \$5,000 worth of debt, this is what happens. So there is that scheme and that is in the underlying bill. Or another one, which is \$250, \$500, or \$750 in debt.

After that, if the consumer makes only minimum payments for 6 consecutive months, then this is where the bill comes in. The credit card company is responsible for letting the individual know essentially how much interest they have, and disclose in each subsequent bill the length of time and total cost which is required to pay the debt plus interest.

People have to know this. If they are a minimum-payment person, they have to know what it means to make

those minimum payments over a substantial period of time.

The amendment would also require that credit card companies be responsible to put out a 800 number, included on the monthly statement, where consumers can call to get an estimate of the time it would take to repay their balance, if only making minimum payments, and the total amount of those payments. If the consumer makes only minimum payments for these 6 months they, then, receive the 800 number and they can begin to get involved and understand it.

Senator Kyl pointed out the differences between our bill and the Akaka amendment. The underlying bill, as I said, provides only for basic payment disclosure. The bill does not require credit card companies to disclose to card holders exactly how much each individual card holder will need to pay, based on his or her own debt, if a card holder is only making minimum payments.

As I said, what we do is after 6 months of these basic minimum payments, then the credit card company must let the individual know: You have X dollars remaining on your debt, the interest is Y, and your payout time will take Z, or whatever it is.

We think this is extraordinarily important. We believe it will minimize bankruptcies. This, I suppose, is what I deeply believe. When companies charge very substantial interest rates, they have an obligation to let the credit card holder know what those minimum payments really mean, in terms of the ability of a minimum payment to completely pay back that debt -- how long it takes. I have people close to me I have watched, with six or seven credit cards, and it is impossible for them, over the next 10 or 15 years, to pay off the debt if they continue making just minimum payments. Therefore, they have to find a way to resolve that debt. To date, you have two recourses.

One recourse is you go into a counseling center and they can repackage all this debt for you and put it into one and somehow work out an agreement with the credit card company. I tried to do this for someone. As a matter of fact, the credit card company would not agree

to any reduced payment. Or they go into bankruptcy.

These huge numbers of bankruptcy filings show that this is, indeed, a problem. If we are going to have a bankruptcy bill, and I certainly support a bankruptcy bill, it is also important that the credit card companies play their role in disclosure. That disclosure is that if you make a minimum payment, and your interest is 17, 18, 19 percent or even 21 percent, here is what it means in terms of the length of time you will be paying your bill and what it will take to pay that bill.

I think you will have people who are more cautious, which I believe is good for the bankruptcy courts in terms of reducing their caseloads, and also good for American consumers.

I join with Senators Kyl and Brownback in presenting this amendment, which is a kind of compromise to the Akaka amendment, in hopes that the Senate will accept it.

I yield the floor.